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Lutz Strategic Analysis

An Undergraduate Honors Thesis Submitted
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ABSTRACT

Lutz, an accounting firm in Nebraska, was founded in 1980 and has grown radically since. It now has four divisions – Accounting, Finance, Talent, and Technology – and over 275 employees. When analyzing the external environment, a PESTEL, Porter’s Five Forces, and SWOT analyses were done. These found the external environment can have an impact on the industry, however, accounting is a job that will always be needed, and growth is almost always available. Lutz’s current strategy for growth is a resource-based view of the firm that involves being a one-stop-shop for customers. It is also looking for new firms to acquire and build its culture into. As long as Lutz does not drastically slow down its growth or lose many employees, it will continue to be successful and satisfy its clients’ needs.

Keywords: Lutz, Accounting firm, client accounting services, strategy, strategic analysis

INTRODUCTION AND BACKGROUND

Lutz was founded in 1980 by Ralph Lutz. In the past five years, Lutz began expanding by acquiring two firms in central Nebraska. It has become one of the largest firms in Nebraska with over 275 employees. Lutz began as only an accounting firm but has grown and created four divisions. The divisions are Accounting, Finance, Technology, and Talent (Lutz, 2021). Accounting does taxes, audits, and client accounting services. Finance works with high-wealth individuals to invest and manage their money. Technology creates software for clients and internally that will help a company grow and become successful. Talent helps clients fill positions their business needs and will help provide temporary services while the firm recruits the correct person.

The Accounting division provides Lutz main source of revenue, making this division the primary focus for rivals. The firms it competes against are mostly local firms looking for smaller clients. Lutz does not pursue large publicly traded firms. One reason is that Lutz does not want to be audited by the Public Company Accounting Oversight Board. This takes Lutz out of the market that BKD and the Big 4 are in. The only time Lutz competes with the Big 4 is at a local, small business, level, which is not the target customer of the larger firms.

Lutz specializes in agriculture, small businesses, trusts, and individuals that come from these returns. It is competing with firms in Central Nebraska for Agriculture returns and other firms in Omaha and Lincoln, such as Frankel Zachariah, for small businesses. It has focused on for-profit businesses and individuals and would not compete against a firm like HBE of Lincoln which has created a niche with non-profits.

ANALYSIS OF THE EXTERNAL ENVIRONMENT

PESTEL Analysis

All firms operate in a greater macro environment that impacts both the industry and the firm. One tool used to analyze the environment is a PESTEL (Administrator, 2020). A PESTEL analysis reviews the impact of Political, Economic, Social, Technological, Environmental, and Legal trends in the macro environments on the industry. However, I will be combining the Political and Legal factors.

Political and Legal

Political changes in the environment greatly impact the Accounting industry. Changes in the political environment generally are followed by tax law changes. While many industries might be negatively impacted by these changes, the accounting industry does better. People struggle to keep up with all the small changes in tax law and do not want to do their taxes on their own for fear of making errors are not optimizing their returns (Loudenback, 2021). Therefore, the industry will likely have an increase in business. The legal environment is constantly changing; however, it does not impact the accounting industry very much. The greatest effect the legal environment has had on accounting is the need for independence and silence with clients. Accountants deal with very sensitive information that cannot be shared with anyone. However, this part of the legal environment is not changing very often, therefore, it does not have a huge impact on the industry.

Economy

Changes in the general economy do not usually affect the accounting industry. The number of clients generally stays the same. The only reason it would be impacted is that people may not be making as much money as they had been, therefore they cannot afford the service or no longer need it because their income drops. Other than that, economic changes can change some of the work the accounting industry does. For example, if the economy is doing well, there will probably be more dividends and purchasing and selling of stock. However, changes in the general economy have a great impact on the Finance division of Lutz. As the economy goes up, there will be more clients needing investment advice. However, in a poor economy, investment recommendations with poor outcomes can lead to losing clientele to other investment advisors.

Social and Demographic

Regarding the Social and Demographic environment, changes in demographics will not change the clientele, or amount of clientele, very much. As one generation passes, a new one is beginning to need accounting work done, so they will continuously be replaced. Socially, society is beginning to make a shift toward supporting businesses that act responsibly regarding the environment. One way Lutz has worked to be more responsible is by being almost completely paperless, other than when they must paper file a return. All work and documentation are done electronically. As our society places more of a focus on this, Lutz will hopefully experience people desiring to do work with them due to them recognizing their responsibility regarding the environment. However, overall, the social and demographic changes will not have a tremendous impact on profitability.

Technology

The technological environment is always changing, especially within a business. People used to do taxes all on paper. Technology has made the industry transfer to using tax software to do the work. It also used to be very common for clients to handwrite all their expenses, however, technology has created software like QuickBooks to allow clients to keep their own records, making it easier for accountants to obtain and understand the client's information. Technology has also allowed for clients to securely send their documents electronically or allow for accountants to obtain records directly from the source and not through the client. Lutz then used this changing environment and created Lutz Technology to provide both accounting and systems solutions to clients, so that all parties can keep up with the ever-changing technological environment.

Environment

Environmentally, Lutz can be significantly impacted by environmental factors. For example, the flooding that occurred in Nebraska in 2019 had a huge impact on the tax law, due dates, and allowable deductions (IRS, 2019). The pandemic has also shown the industry how much they can do remotely. It used to be that audits were done in person at a client's office, but the pandemic showed audits can be done from the office. While it would be useful to still have a day or two at the clients, an audit doesn't require as much time in person as previously thought. This will change profitability because a lot of money was spent on travel, so firms will be saving money for both themselves and the client with less need to be in person for audits. Overall, environmental factors have changed the way the industry works at times and have led to new ways of doing things.

PORTER'S FIVE FORCES

An analysis of Porter's Five Forces is comprised of substitutes, suppliers, consumers, threats of new entrants, and rivalry (Dess, McNamara, Eisner, & Lee, 2019). Porter's Five Forces analyzes the competitive environment of an industry and the effect each of the five factors has on potential industry profitability. Each factor can affect how a company operates to create and sustain a competitive advantage within the industry.

Substitutes

A substitute is something that can be used instead of a company's service (Staff & Scott, 2020). Due to the nature of what accountants do, there are very few substitutes for them, especially with auditing. For many audit clients, there are zero substitutes, as the law requires an audit to be completed by an accounting firm. However, with taxes, the substitutes are doing the taxes themselves or using turbo tax or one of their competitors. While this substitute is often used, it is a low chance that it will force accounting firms to be more competitive since, generally, clients do not move from accounting firms to an online platform or doing it themselves and as most people age, their taxes become harder than they or the platform can handle, so they turn to accounting firms.

Suppliers

The suppliers of the industry are the software companies providing the technology accountants then use to prepare tax returns and complete audits. While they are necessary, they do not have lots of power over profitability for the industry, rather, they increase the profitability of the industry by transforming the way accountants work and adding to the value chain. More specifically, they are changing the operations part of the value chain by

allowing accountants to more quickly and effectively complete the work that needs to be done.

Consumers

The consumers of the industry are people that need accounting work done. Luckily, these clients will never disappear due to the complex and changing nature of taxes and the necessity of audits. Consumers will initially search for the cheapest price; however, most firms are quite similar in pricing on the individual level. Once a customer establishes a positive relationship with a firm it is likely to continue with that firm. Consumers pose a low threat to the profitability of the industry.

New Entrants

The threat of new entrants refers to the ability of a new firm to enter the industry with little time or money (Staff & Scott, 2020). In this case, it is referring to any new accounting firms that are going to start up or current firms looking to merge with other existing firms to create a larger firm and clientele base that enters into the work Lutz does. While both of these can happen, it is low that it will, making the long-term profitability outlook very positive for Lutz.

Rivals

Rivalry between smaller regional firms has minimal impact on industry profitability. This is because of the resource-based view of the firm, which will be talked about later. Local firms focus on a geographic or line of business type work that sets them apart. Client numbers have increased.

SWOT ANALYSIS

For a SWOT analysis of Lutz, one should look at the strengths, weaknesses, opportunities, and threats of the firm (Dess, McNamara, Eisner, & Lee, 2019). This is important for companies to analyze often so they are always evaluating themselves and understanding what they do well, where they struggle, what they can do next, and what might hurt them. It looks at both internal and external factors impacting the company to create a picture of where it is now and where it could be as well as how to get there (Grant & Scott, 2021).

Strengths

Lutz's strengths are their culture, people, ability to communicate with clients, and resource-based model. Lutz's culture is one of the great benefits of working for them, making it a strength. It has spent years hiring the correct people and placing them in the correct positions and has a leadership that promotes an open line of communication and a safe environment. There is a high level of trust within the firm, making for a great work environment, which draws in good candidates for employment. Lutz is a desirable firm with great benefits.

Having good people leads to high quality work produced which leads to happy and long-term clients, making for high profitability and low turnover, both in clientele and employees. These people are also strong communicators, a skill most people do not place with accountants, which sets them apart from other firms. A huge focus at Lutz is communicating with the clients to make sure they feel in the loop and confident in what Lutz is doing. This helps to keep the clients and make sure they know what they are paying for when the bill comes.

Lutz's last major strength is the resource-based model for how they are growing. It is working towards being a full-service firm for all a business's needs, hoping clients will turn directly to them when they need something new. This allows them to enhance their clients' experience and sets them apart from competitors, making it a big strength for Lutz.

Weaknesses

While Lutz does many different types of work, there are some areas it does not cover. One of these is public companies since it does not do audit work beyond 401K audits for clients. While this is a choice it has made, it does limit the clientele, making it a weakness. The purpose for this weakness is so Lutz does not have to be audited by the Public Company Accounting Oversight Board, so it is backed by a reason, however, this will continue to be a weakness until Lutz enters the public sector. Another weakness is the lack of offices outside Nebraska. This also limits its pool of clients. While they have a few clients from outside Nebraska, many are due to connections to other clients or previously living in Nebraska. As of right now, Lutz is not opposed to moving out of Nebraska, but the correct opportunity has not come up, so until then, it will continue to be a weakness.

Opportunities

Lutz has decided that the best options for new opportunities are failing firms in Nebraska, Kansas, Missouri, North Dakota, South Dakota, or Iowa. The locations are because all are relatively close to Nebraska but will allow for expansion close to the home offices. The reason it is looking for failing firms is Lutz is good at business, so it believes it has the ability to turn these firms around. It also does not think it would have enough employees wanting to move to any of these states to start up a new firm, so a failing firm would give it a few employees in that state already, so fewer current employees of Lutz

would need to move. While it may sound like this opens up lots of opportunities, Lutz wants to find the correct firm to acquire, lessening the options and lengthening the timeline as to when they decide to go after an opportunity.

Threats

As discussed earlier in the paper, the threats to Lutz are local firms. However, few firms truly compare to Lutz due to its differentiated offerings. While there will always be competitors surrounding Lutz, Lutz is currently a top firm in Nebraska. Threats would come from new firms entering the market or from existing local firms expanding their services to directly compete with Lutz. This is something Lutz will have to look out for and have a plan for when it inevitably happens.

COMPETITIVE ADVANTAGES

The way Lutz competes with their rival firms is through a resource-based strategic advantage. This is when a company creates an experience that competitors cannot duplicate (Dess, McNamara, Eisner, & Lee, 2019). Lutz's approach is providing a one-stop shop for its clients. It does this through both tangible and intangible items. The most obvious tangible items it has created are its four divisions - Accounting, Finance, Technology, and Talent. As clients need something, Lutz creates the service for them. This allows Lutz to better serve the customers and become a more well-rounded company. Other resources are good processes, adequate cash for growth, and expanded use of technology. These are all tangible items that the clients and companies can see and use. Some intangible parts of its resource-based view are talented employees, a good reputation around Nebraska, technical skills, and specific routines for client relationships. Overall, Lutz is competing with its rivals by providing its clients all they should need to run and

grow their business. This is a huge advantage to Lutz and will hopefully allow them to continue to grow and get out of Nebraska.

STRATEGY

Lutz's strategy is to grow but continue to offer personalized services through a differentiated service offering. Lutz will do this by acquiring failing firms, so it is not starting from scratch in new cities and then bringing current Lutz employees to that firm to initiate the culture and drive. It will also continue to find new ways to help clients by expanding services offered to continue on the path of being a one-stop shop for clients. Another aspect of its strategy is to get and obtain good employees. One way Lutz does this is through their culture and setting goals of the firm. The culture revolves around a team approach to situations. Lutz is constantly listening and open to all ideas, from all levels of staff. Goals are known to all employees so everyone can work together to achieve the goals and see success. This makes people want to stay and see the firm succeed and achieve its goals.

MAJOR ISSUES

In the past 10 years, Lutz has experienced extreme growth. So, an issue facing Lutz is how does it continue to have growth at the rate it has instead of slowing down. One way it is tackling this and hoping to create sustainable growth and competitive advantage is by continuously looking for firms they can acquire and analyzing how it would impact their business and bottom line. Another issue Lutz is facing is the continuation of its culture as it grows. People cannot be forced to accept a certain culture, rather it is built through leadership and teamwork. Therefore, when Lutz acquires firms, it will need to work to bring new employees into the existing Lutz culture. This will be extremely difficult,

however, very doable and it will contribute to its ability to continue its competitive advantage over rivals. If Lutz can find a way to overcome these issues, it will be able to continue to be competitive and grow the bottom line.

CONCLUSION

Lutz is a firm with great growth potential and excellent employees. I recommend Lutz continues to look for firms it can acquire and build out into new states. While it is continuing to grow in Nebraska, there will come a time where it will reach its limit here and needs to be ready to go after new locations. I do not recommend waiting until the growth has slowed down, instead use the momentum and drive of the current staff to push out of Nebraska. To help continue the culture of Lutz, I would recommend an office within three or four hours of Omaha so staff can easily travel between offices for work. These recommendations will help not only Lutz's bottom line, but as the firm succeeds, the employees feel accomplished, allowing Lutz a greater chance of keeping the human capital it has built up.

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